

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 EB-08 OMB-01 TRSE-00 IGA-02 /072 W
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R 030945Z APR 77
FM AMEMBASSY AMMAN
TO SECSTATE WASHDC 1164

C O N F I D E N T I A L SECTION 1 OF 2 AMMAN 1917

E.O. 11652 GDS
TAGS: EAID PFOR JO US
SUBJECT: JORDAN BUDGET SUPPORT- THE CONGRESS AND THE FUTURE

REF: (A) AMMAN 0099, (B) AMMAN A-10

1. SUMMARY: WE UNDERSTAND THAT BUDGET SUPPORT THIS YEAR IS AT BEST NO MORE POPULAR FOR JORDAN OR OTHER STATES THAN IT HAS BEEN IN PAST YEARS. WE ALSO UNDERSTAND ARE ARE PLEASED THAT IN TESTIMONY AND IN CONVERSATION WITH CONGRESS THERE IS A POSSIBILITY OF DESCRIBING OUR BUDGET SUPPORT STRATEGY FOR JORDAN IN THE POSITIVE TERMS IN WHICH IT HAS BEEN CONCEIVED AND INDEED IN WHICH IN THE PAST CONGRESS IN GENERAL HAS TENDED TO VIEW IT. WE CONTINUE TO BELIEVE THAT WE AR DEALING WITH A POLITICO-ECONOMIC-MILITARY COMBINATION OF ISSUES IN JORDAN. BUDGET SUPPORT HAS THEN TO BE THOUGHT OF AS RELATING TO ALL THREE AREAS, ALTHOUGH WE FOCUS BELOW PRIMARILY ON THE ECONOMIC FACTORS AND SUBSEQUENTLY ON THE NO LESS IMPORTANT POLITICAL IMPERATIVES. WE ALSO ADDRESS FOR THE FIRST TIME THE ISSUE OF SOME FUTURE MINIMUM BUDGET SUPPORT LEVEL, ALL OTHER FACTORS (NO PEACE SETTLEMENT SOON FOR EXAMPLE) REMAINING UNCHANGED. JUST AS THIS EMBASSY WAS THE INITIATOR OF A PLANNED PROGRAM OF REDUCTION OF BUDGET SUPPORT FOR JORDAN WE
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TOO FEEL IT IS NECESSARY TO INITIATE THE DISCUSSION NOW OF A FLOOR LEVEL (APPROX \$35 M) BELOW WHICH OUR BUDGET SUPPORT SHOULD NOT FALL AND THE RATIONALE THEREFORE. END SUMMARY

2. IN ANTICIPATION OF POSSIBLE CONGRESSIONAL INITIATIVES TO REDUCE ADMINISTRATION REQUESTED LEVEL OF BUDGET SUPPORT COMPONENT OF FY 1978 ECONOMIC ASSISTANCE TO

JORDAN, EMBASSY SUBMITS FOLLOWING OBSERVATIONS ON
LIKELY IMPACT OF ANY SUCH CUT--AND HOPES THAT IT WILL
BE MAINTAINED AT CLOSE TO CURRENTLY-RECOMMENDED LEVELS.

3. ECONOMIC IMPACT:: THE NEXT FEW PARAGRAPHS DESCRIBE
BUDGET SUPPORT IN TERMS OF JORDAN ECONOMY. AS REPORTED
IN REFTEL GOU CHOSE RECORD BUDGET FOR 1977 IN RESPONSE
TO INSISTENT DOMESTIC POLITICAL PRESSURES DESPITE
MASSIVE DEFICIT CARRIED FORWARD FROM 1976. SUBSTANTIAL
WAGE INCREASES FOR LARGE BODY OF CIVIL SERVANTS AND
JORDANIANS MILITARY IN 1977 TO COMPENSATE PARTIALLY FOR
EROSION OF PURCHASING POWER OF JORDANIANS DINAR DUE TO
INFLATION DURING PREVIOUS YEAR ADDED TO EXPENDITURE
SIDE OF 1977 BUDGET. AT SAME TIME, INFLATION ALSO
INHIBITED GOJ FROM FULLY CARRYING OUT INTENTION TO
TAX DOMESTIC RESOURCES MORE HEAVILY. THE LESSON OF
EGYPTIAN RIOTING IN RESPONSE TO SADATS ATTEMPT TO
INCREASE PRICES EARLIER THIS YEAR HAS NOT BEEN MISSED
IN AMMAN. NEVERTHELESS INCREASES IN WATER AND
ELECTRICITY RATES AND CORPORATE INCOME TAX RATE HAVE
BEEN PUT INTO EFFECT. INFLATION WHICH SHOWED SIGNS
OF ABATING NEAR END OF LAST YEAR NOW MAY BE REGAINING
ITS FORMER VIRULENCE.

4. IN CONSEQUENCE 1978 BUDGET WILL ALMOST CERTAINLY
HAVE TO BE INCREASED TO PREVENT FURTHER SUBSTANTIAL
EROSION OF GOVERNMENT EMPLOYEES REAL INCOME AND CUTBACKS
IN PRESENT QUANTITY AND QUALITY OF GOVERNMENT PROVIDED
SERVICES ALL OF WHICH WOULD HAVE SERIOUS POLITICAL
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AND SOCIAL REPERCUSSIONS.

5. ON REVENUE SIDE, WHILE BUDGETED INCREASES FOR
GOVERNMENT INCOME DURING 1977 ARE CONSISTENT WITH
HISTORICAL TRENDS AND WERE NOT UNREASONABLE WHEN
1977 BUDGET DOCUMENT WAS PREPARED LATE LAST YEAR,
TARGETS WERE NOT CERTAIN OF ATTAINMENT AT THATTIME,
AND NEW REASON FOR SOME DOUBT HAS APPEARED SINCE.
IN 1977 GOVERNMENT REVENUES FROM EXPORT TAX ON PHOSPHATE
ROCK EXPORTS(\$15M) NO LONGER APPEAR AS PROMISING
AS THEY HAD. WHILE PRICES FOR EXPORTED ROCK ARE
RAISING AS WAS ANTICIPATED THEY ARE NOT RISING AS
RAPIDLY AS WAS SUPPOSED, AND PROSPECTS FOR SALES DURING
1977 DO NOT LOOK AS PROMISING AS THEY HAD. REVENUE
FROM CUSTOMS LEVELS ALSO MAY FALL WELL BELOW THE BUD-
GETTED LEVEL AS SLOWDOWN IN BUSINESS ACTIVITY WHICH
BEGAN IN LATE 1976 HAS CONTINUED, AND INVENTORIES
BUILT UP LAST YEAR CONTINUE TO BE DRAWN DOWN.
INCOME TAX COLLECTIONS PROJECTED IN 1977 BUDGET TO BE

SECOND IN IMPORTANCE ONLY TO CUSTOMS COLLECTIONS ARE UP A GRATIFYING 30 PC DURING THE FIRST TWO MONTHS OF 1977 CLOSE TO TARGETTED ANNUAL RATE FOR THE YEAR. HOWEVER TO EXTENT THEY ARE DEPENDENT ON ECONOMIC PERFORMANCE THIS YEAR, MAINTANENCE OF THIS RATE FOR ENTIRE YEAR IS IN QUESTION. IN SHORT PRESSURES FOR INCREASED REGULAR BUDGET EXPENDITURE ARE CERTAIN TO GROW WITHOUT COMMENSURATE ASSURANCE OF INCREASED REVENUE FROM DOMESTIC SOURCES IN 1978.

6. GOJ BUDGET CONTINUES TOBE HEAVILY DEPENDENT ON CASH GRANTS FROM FOREIGN DONORS TO SUCH EXTENT THAT AUSTERITY IN GOVERNMENT EXPENDITURES AND EFFORTS AT COLLECTION OF REVENUE FROM DOMESTIC SOURCES CAN EASILY BE OVERWHELMED IF BUDGETTED FOREIGN GRANTS FAIL TO

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C O N F I D E N T I A L SECTION 2 OF 2 AMMAN 1917

MATERIALIZE. WHILE STEADILY DECREASING, OUR CONTRIBUTION IN CASH GRANTS HAS BEEN PREDICTABLE AND THEREFORE COULD BE BUDGETTED CONFIDENTLY BY THE GOJ. ARAB OFFICIAL TRANSFERS, ON THE OTHER HAND, HAVE NOT BEEN. FOR EXAMPLE, IN THE SINGLE CATEGORY OF "RABAT SUBSIDIES", JORDAN RECEIVED ABOUT \$175 MILLION 1975. SAME AMOUNT WAS BUDGETTED IN 1976, THOUGH AS FAR AS WE CAN DETERMINE, NO SUCH TRANSFERS ACTUALLY TOOK PLACE THAT YEAR. IN 1977, \$156 MILLION HAS BEEN BUDGETTED FROM THIS SOURCE, AND DONORS HAVE ACCORDING TO GOJ AT LEAST ASSURED JORDAN THAT THESE TRANSFERS WILL BE MADE. TO DATE, NONE HAVE BEEN, HOWEVER, AND WITH HISTORY AS A GUIDE, GOJ CANNOT HAVE CONFIDENCE THAT ALL OR EVEN MOST OF PROMISED FUNDS WILL MATERILIZE. THUS, DRASTIC CUT IN OUR CONTRIBUTION FOR 1978 WOULD ADD GREATLY TO GOJ UNCERTAINTY REGARDING ITS INCOME AND

CONSEQUENTLY RENDER JORDANIAN BUDGET PLANNING FAR MORE
CHAOTIC THAN IT ALREADY IS BY NECESSITY.
EMBASSY SUPPORTS FULLY, AND HAS IMPLEMENTED FOR LAST TWO
YEARS, PRINCIPLE OF CONSISTENT AND STEADY PLANNED AND
PREDICTABLE DECREASE IN BUDGET SUPPORT COMPONENT ON
DIRECT ECONOMIC DEVELOPMENT SUPPORT. DRASTIC AND
UNPLANNED REDUCTIONS IN US BUDGET SUPPORT WOULD NOT ONLY
UNDERMINE LIMITED ABILITY OF GOJ TO OPERATE SOUNDLY
IN FISCAL POLICY, BUT ALSO COMPROMISE PROGRESS OF
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ECONOMIC DEVELOPMENT.

7. BUDGET SUPPORT IMPINGES DIRECTLY UPON ECONOMIC
DEVELOPMENT. FOR EVERY FOREIGN ECONOMIC DEVELOPMENT
LOAN OR TECHNICAL ASSISTANCE GRANT, THERE IS SOME
CORRESPONDING EXPENDITURE OF FUNDS BY GOJ
FROM REGULAR BUDGET. TO EXTENT THAT REGULAR BUDGET
REVENUES ARE INADEQUATE FOR REGULAR BUDGET EXPEN-
DITURES, GOJ IS FORCED TO DEFER SOME ECONOMIC
DEVELOPMENT SIMPLY BECAUSE FUNDS ARE NOT AVAILABLE TO
COMPLEMENT FOREIGN DEVELOPMENT ASSISTANCE.

8. POLITICAL FACTORS: BUDGET SUPPORT HAS ALWAYS BEEN AND
CONTINUES TO BE VIEWED BY GOJ AS OF GREAT, AND PERHAPS OF
PARAMOUNT IMPORTANCE IN POLITICAL TERMS. CURRENT SEARCH FOR
A SETTLEMENT HAS PROPELLED JORDAN BACK INTO THE PEACE
PROCESS WITH CENTRAL FOCUS ON JORDANIAN-PALESTINIAN
RELATIONSHIP. THERE MAY WELL BE IN THE DAYS AHEAD SOME
REASON TO WANT JORDAN TO ACCEPT SOME UNUSUAL RISKS IN
THE PEACE PROCESS. IN DIRECT TERMS, DECLINING BUDGET
DOES NOT ENHANCE OUR ABILITY TO DO THIS. FURTHER,
BUDGET SUPPORT ALSO PLAYS A DIRECT ROLE IN STABILIZING
THE ECONOMY AND ENSURING THE SURVIVAL OF THE PRESENT
GOVERNMENT. IN STARKEST TERMS, NO CONCEIVABLE
ALTERNATIVE REGIME IS LIKELY TO BE AS HELPFUL TO THE
PEACE PROCESS OR AS MODERATE AND FRIENDLY TO THE US.
NO OTHER IS LIKELY TO HAVE AS MUCH INFLUENCE AMONG
ITS FELLOW ARABS IN FAVORABLE DIRECTIONS. WITHOUT
ECONOMIC STABILITY, IN PART ASSURED BY PREDICTABLE BUDGET
SUPPORT LEVELS, WE CANNOT ASSUME THAT INTERNAL SECURITY
AND DOMESTIC TRANQUILITY WILL CONTINUE TO PREVAIL IN
JORDAN. THE ECONOMIC ASSESSMENT PRESENTED EARLIER POINTS
THAT OUT. THE DEPARTMENT AND AID HAVE OUR GENERAL VIEWS
IN OUR RECENT POLICY ASSESSMENT ON THE AREAS WHERE WE
BELIEVE JORDAN CONTINUES TO BE IMPORTANT TO US
INTERESTS AND TO THE REGION.
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9. FYI: A WORD OF CAUTION FOR THE FUTURE SHOULD BE INTRODUCED HERE. WE HAVE BEEN PLEASED BY WAY CONGRESSIONAL WITNESSES HAVE HANDLED TESTIMONY ON JORDAN IN RECENT HEARINGS IN EXCEPTIONALLY ABLE FASHION. IN THE FUTURE WE BELIEVE THEY SHOULD CONTINUE TO BEAR IN MIND THAT JUST AS WE CANNOT PROMISE TO PROMOTE TOO RAPID A DECLINE IN BUDGET SUPPORT FOR JORDAN, SO TOO WE CANNOT PROMISE TOO EXTENSIVE A DECLINE. THE MERCURIAL CHARACTER OF ARAB ASSISTANCE, THE PRESENT PRINCIPAL COMPONENT OF FOREIGN AID TO JORDAN, IS MANIFEST. WE BELIEVE THERE MUST BE, IN THE ABSENCE OF PEACE AND A MORE ADVANCED STAGE OF PROGRESS TOWARD SELF-SUFFICIENCY AND SELF-RELIANCE IN THE JORDANIAN ECONOMY, SOME LEVEL OF US BUDGET SUPPORT WHICH FOR THE CONCEIVABLE FUTURE, WE WILL NOT BE ABLE TO DIP BELOW IN JORDAN. THIS MINIMUM LEVEL WE HAVE SOUGHT TO DEFINE IN SEVERAL WAYS. NO ONE METHOD, PARTICULARLY GIVEN THE ENORMOUS POLITICAL CONTENT OF BUDGET SUPPORT, CAN BE APPLIED. WHAT WE HAVE WORKED OUT HERE IN A PRELIMINARY FASHION IS THAT OUR CONTINUING LEVEL OF BUDGET SUPPORT HAS TO BE MEANINGFUL POLITICALLY AND CAPABLE OF PROVIDING SOME BASIC ECONOMIC SUPPORT FOR A BREATHING SPELL IN THE EVENT ARAB REGULAR BUDGETARY ASSISTANCE WERE WITHDRAWN PRECIPITATELY, FOR WHATEVER REASONS, AT SOME FUTURE TIME. IN ADDITION, MAINTAINING A SIGNIFICANT LEVEL OF US BUDGET SUPPORT PREVENTS GOJ FROM BEING NEARLY TOTALLY DEPENDENT ON ARAB FINANCIAL SUPPORT (WITH ALL THE POLITICAL IMPLICATIONS INHERENT IN THAT RELATIONSHIP) AND MAINTAINS SOME PROPORTIONALITY TO THE LARGE ECONOMIC ASSISTANCE PROGRAMS FOR ISRAEL, EGYPT AND SYRIA.

10. FYI: ACCORDINGLY, WE SUGGEST THAT OUR MINIMUM BUDGET SUPPORT LEVEL FOR JORDAN UNDER PRESENT CONDITIONS SHOULD NOT GO BELOW THE CURRENT LEVEL OF THE REGULAR BUDGET SUPPORT CONTRIBUTION OF EITHER ONE OF THE TWO
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REGULAR COMMITTED CONTRIBUTORS--KUWAIT AND SAUDI ARABIA-- UNDER THE KHARTOUM PAYMENTS. THESE FUNDS, ORIGINALLY DENOMINATED IN STERLING HAVE NOW DECLINED TO ABOUT \$35 MILLION US ANNUALLY FOR EACH DONOR, \$37.9 MILLION FOR SAUDI ARABIA AND \$34.8 MILLION FOR KUWAIT. (WE BELIEVE JORDAN HAS NOW GOTTEN KUWAIT AT LEAST TO AGREE TO STABILIZE THE FIGURE AT PRESENT LEVEL.) THEREFORE WE THINK THIS REPRESENTS A GOOD REASONABLE APPROXIMATION OF THE FLOOR WE SHOULD BE WORKING TOWARD. WE BELIEVE

ALS THAT WITH A US BUDGET SUPPORT LEVEL OF \$42
MILLION FOR FY 1978, THE FUGURE FOR FY 1979 SHOULD COME
DOWN TO ABOUT \$38 MILLION, WITH OUR REACHING THE \$35
MILLION IN FY 1980. WE UNDERSTAND THE RATIONALE IS
HIGHLY POLITICAL AND WOULD LIKE TO HAVE AID AND
DEPARTMENT COMMENTS. END FYI.
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Message Attributes

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